

Economics

THE WEEK AHEAD

October 27 - 31, 2025

Precipices, cliffs or otherwise

by Avery Shenfeld avery.shenfeld@cibc.com

It's all but certain that Canada's upcoming federal budget will be swimming in red ink. At this point, a deficit in the \$80-90 billion range would be no surprise. Just how worrisome is that? Depends on who you ask, it seems.

Canada's interim Parliamentary Budget Officer called his September projection for a mere \$68.5 bn deficit this year as "shocking, saying the fiscal outlook is "on the precipice" but not yet fully over the cliff. In response, his predecessor at that budget watchdog disagreed, saying there's no precipice and no fiscal crisis. Indeed, the IMF managing director opined that "in this testing time" Canada "needs to use its fiscal space" to provide economic momentum.

On their part, investors seem to be siding with a more benign assessment. Yields on 10-year Canadian government bonds are slightly lower than just ahead of the late April election, the spread to US Treasury yields are only slightly less negative, and 30-year Canada yields are little changed.

Should the deficit come in at our forecast range, it would sit at about 2½% of GDP, and likely a bit lower in the 2026/27 projection. If, as we expect, the capital and defense dollars take longer to get out the door, the actual 2025/26 deficit could come in a bit lower when the books are closed.

Canada's provinces also run meaningful deficits, and we're likely to see some slippage from their Q1 update figures, potentially taking their aggregate shortfall to a bit above 2% of GDP. So in total at both levels, the 2025/26 deficit could end up in the neighbourhood of 5% of GDP. That compares to a US federal deficit of nearly 6% of GDP. Canada also enjoys a G-7 best net debt to GDP ratio, owing to well funded pension plans. It's that fiscal room that independent observers like the IMF see as available to tap in a time of peril, and gives the bond market a degree of comfort in funding higher deficits for a while.

Unlike the US, this years' Canadian deficit isn't all structural or doomed to persist. Ottawa can blame some of the 2025/26 shortfall on the impacts of a soft economy and weak oil prices on revenues and rising employment insurance costs. The deficit

would not look as ugly in cyclically-adjusted terms, and it will be important for the budget to credibly make the case that it will improve over the medium term if the economy can crawl its way back to full employment.

But most of the erosion in the near term budget outlook will come from a bump in defense spending to meet NATO targets, and Ottawa following the IMF's advice to add fiscal stimulus to counter the trade drag. That's not advice that the IMF would have given to the US this year, given an American economy that's close to full employment and with much more ample room to cut interest rates if it faltered.

The US does has one important fiscal advantage over Canada: room to raise taxes down the road. America's total tax take from all levels of government is miles below other G7 countries. A move to the median tax take would wipe out their deficit, a safety valve that could be pulled by a future President if need be.

Without such room, Canada has to be careful not to let a cyclical bump in deficits turn into a large structural gap. What we'll be eyeing on budget night is the projection for the future trend in interest costs as a share of GDP. That measure has been edging up from the very low levels achieved pre-pandemic, and that erosion seems likely to continue in the next two years. But if the budget can show it stabilizing near 2% or so in the out years, a far cry from its 6% peak back in the early 1990s, that would help make the case that we can afford to deliver this budget's stimulus plan without jumping over a precipice.

Week Ahead Calendar And Forecast—Canada

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, October 27	-	-	-	-	-	-	-
Tuesday, October 28	-	-	-	-	-	-	-
Wednesday, October 29	9:45 AM	BANK OF CANADA RATE ANNOUNCE.	(Oct 29)	(H)	2.25%	2.25%	2.50%
Thursday, October 30	-	AUCTION: 2-YR CANADAS \$6B	-	-	-	-	-
Thursday, October 30	8:30 AM	PAYROLL EMPLOYMENT, EARNINGS & HRS	(Aug)	-	-	-	21.6K
Friday, October 31	8:30 AM	GDP M/M	(Aug)	(H)	0.0%	0.0%	0.2%

Week Ahead Calendar And Forecast—United States

H, M, L = High, Medium or Low Priority

SAAR = Seasonally Adjusted Annual Rate

Consensus Source: Bloomberg

Date	Time	Economic Releases, Auctions and Speakers	Month	Priority	CIBC	Consensus	Prior
Monday, October 27	-	AUCTION: 2-YR TREASURIES \$69B	-	-	-	-	-
Monday, October 27	-	AUCTION: 5-YR TREASURIES \$70B	-	-	-	-	-
Tuesday, October 28	-	AUCTION: 1-YR TREASURIES \$50B	-	-	-	-	-
Tuesday, October 28	-	AUCTION: 7-YR TREASURIES \$44B	-	-	-	-	-
Wednesday, October 29	-	AUCTION: 2-YR FRN \$30B	-	-	-	-	-
Wednesday, October 29	2:00 PM	FOMC RATE DECISION (UPPER BOUND)	(Oct 29)	(H)	4.00%	4.00%	4.25%
Wednesday, October 29	2:00 PM	FOMC RATE DECISION (LOWER BOUND)	(Oct 29)	(H)	3.75%	3.75%	4.00%
Thursday, October 30	1:15 PM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Friday, October 31	9:30 AM	Speaker: Lorie K. Logan (Dallas) (Non-Voter)	-	-	-	-	-
Friday, October 31	12:00 PM	Speaker: Beth Hammack (Cleveland) (Voter) & Raphael W. Bostic (Atlanta) (Voter)	-	-	-	-	-

Week Ahead's market call

by Avery Shenfeld

In the **US**, we're going to be back in the dark in terms of economic data, but the Fed has a clear green light to deliver a quarter point cut. After that, we expect to see two further cuts for this cycle, which would take overnight rates back to a level we see as neutral. Neither inflation rates nor labour market data have yet made a clear case for outright stimulus. The timing of further rates cuts beyond October will depend on what the jobs and inflation data actually look like when the government reopens and news starts to flow again. We had expected a brief pause, including no cut in December, in the expectation that the jobless rate would move mostly sideways and inflation would edge higher. September's moderate core CPI obviously raised the odds for a cut in December, but if the government reopens, there will be flood of catchup data that will impact that call.

In **Canada**, a small upside surprise in inflation shouldn't faze a forward-looking Bank of Canada, with ample economic slack providing downward pressure on inflation ahead. A second consecutive quarter point cut next week will only nudge monetary policy into slightly stimulative territory. That could be the final resting spot for this cycle, assuming Canada is able to reach a trade deal that extends the current tariff free access for USMCA-compliant goods outside items hit by sectoral tariffs. While it will arrive after the BoC decision, GDP data will point to modest, below-potential growth in Q3, a good reason to press ahead with this month's rate cut.

Week Ahead’s key Canadian number:
GDP—August, September advance

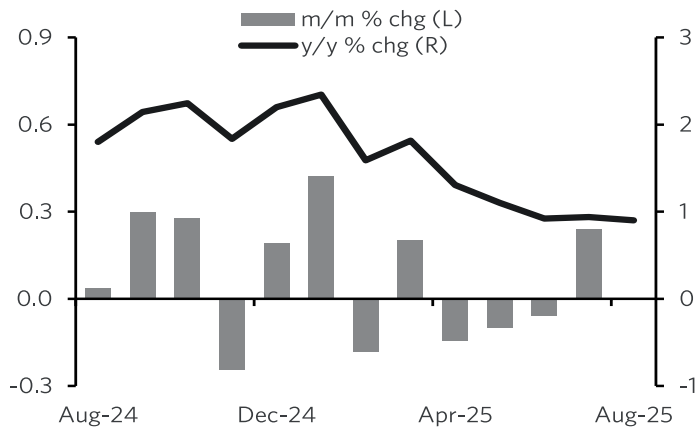
(Friday, 8:30 am)

Andrew Grantham andrew.grantham@cibc.com

Variable (%)	CIBC	Mkt	Prior
GDP m/m	0.0	0.0	0.2

Growth in the Canadian economy appears to have stalled again in August, with a pull back in manufacturing activity as well as the mining, oil and gas likely offsetting a reasonably decent month for retail spending. With industry data pointing to a September rebound in manufacturing, we expect that month to show a return to modest growth. That would leave Q3 as a whole tracking around 0.75% annualized growth.

Chart: Canadian GDP at basic prices



Source: Statistics Canada, Haver Analytics, CIBC

Forecast implications — Canadian GDP looks to have returned to growth in the third quarter, albeit not strong enough to reduce the amount of slack currently within the economy. Assuming a trade deal that reduces some sector-specific tariffs (mainly aluminum), and a continuation of CUSMA exemptions for other goods, growth should slowly accelerate into 2026 to a level strong enough to start reducing slack within the economy.

There are no major US data releases next week.

Contacts:

Avery Shenfeld
avery.shenfeld@cibc.com

Benjamin Tal
benjamin.tal@cibc.com

Andrew Grantham
andrew.grantham@cibc.com

Ali Jaffery
ali.jaffery@cibc.com

Katherine Judge
katherine.judge@cibc.com

CIBC Capital Markets
PO Box 500
161 Bay Street, Brookfield Place
Toronto, Canada, M5J 2S8
[Bloomberg @ CIBC](https://www.bloomberg.com/profile/company/CIBCCM:CA)

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